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FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 41  
24 February - 1 March 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

India is playing host to a Commonwealth conference being held in the hope of stabilizing conditions in Burma (p. 2).

A program of mass dismissals of Government and private industrial workers in Japan promises to increase labor unrest (p. 2).

From Korea comes news of the departure of Kim Il Sung and other northern puppet officials for a visit to Moscow (p. 3).

Acting President LI Tsung-jen's position as head of the Chinese Nationalist Government has improved considerably in the last week (p. 4) while, on the otherwise quiet military scene, the ex-British cruiser, Chungking, has sortied to join the Communists (p. 6).

The French National Assembly has scheduled debate on the proposed Franco-Vietnamese treat, on the basis of which ex-Emperor Bao Dai is supposed to return to Indochina (p. 6).

Bloodshed in Bangkok--the worst since 1933--marked an unsuccessful coup attempt on the part of ex-Premier Pridi's supporters (p. 7).

As expected, Indonesian Republican leaders have rejected the latest Dutch proposal for settling the stalemate there (p. 8).

Philippine President Quirino's strength in the Liberal Party is growing as a result of defections from the camp of Senate President Avelino (p. 8).

Spain has recently voiced a claim to certain islands in the former Japanese Mandate area in Micronesia (p. 8).

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The marginal notations used in succeeding sections of this Weekly "A", "B" or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Commonwealth Conference on Burma. An informal conference, called by India's Prime Minister Nehru, met in New Delhi 28 Feb. to discuss the deteriorating situation in Burma. Attending are representatives from India, Pakistan, Ceylon, Australia and New Zealand, as well as George Bottomley, British Secretary for Overseas Trade and Malcolm MacDonald, British Commissioner-General for Southeast Asia. The meeting will be primarily concerned with ways of helping Burma out of its severe political and economic troubles, a matter of concern to other Asian nations because of their need for Burma's surplus rice crop. "B"

The Burmese Government, approaching virtual bankruptcy, recently requested financial assistance from the UK. After consultation with other Commonwealth nations in the area, the UK persuaded Nehru to call the conference as of mutual interest to all. Considering the political and economic instability of Burma, it is unlikely that anything but short-term financial assistance will be extended, primarily to facilitate the rice export program. Since a loan without assurances of communal peace would be almost useless, Commonwealth efforts to solve the Karen-Burman conflict probably will be forthcoming as well. Nehru has indicated his personal willingness to mediate the conflict. Any attempt at mediation, however, will have to overcome the conviction on the part of both Burmans and Karens that each will be victorious.

JAPAN

Mass Dismissal Program. A program of mass dismissals of employees proposed under the Japanese Government's economic stabilization program should increase labor unrest and permit the Japan Communist Party to strengthen its influence. "B"

The program proposes that: non-operating Government staffs be cut by one-third and operating personnel of government monopolies be cut by one-fifth. Teachers, policemen, court and prison attendants are to be exempted. Recognizing a coming unemployment problem aggravated by these dismissals, the Japanese Government has appropriated 90 billion yen for public works to absorb these unemployed and is attempting to increase unemployment benefits. The Government estimates unemployment at 1,800,000 in the coming fiscal year.

Under Communist guidance, Japanese labor probably will oppose the mass dismissals strongly. A mass meeting of workers of the Tokyo Shibaura Electric Company, a center of labor conflict, may spread into a "March

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JAPAN (Cont.)

labor offensive" against dismissals in industry generally.

SCAP and the Japanese Government face a difficult problem in counter-acting Communist propaganda arising from the program and combating possible crippling strikes. Revision of basic labor laws to protect the national interest and to ensure economic recovery and modification of harsher points of the National Public Service Law, may have some restraining influence on labor's reaction to the mass dismissals.

US Immigration Law revision acclaimed. The Judd Bill, which would eliminate racial clauses in the US Immigration Law of 1924, has recently passed the House Judiciary Committee. The exclusion of Orientals by present immigration regulations has been a source of friction and a constant irritant to Asiatic pride over the last quarter century and was particularly galling to the Japanese who considered themselves one of the world's leading nations.

"B"

Top Japanese Government officials and editors are hailing the Judd Bill and express hope for its speedy passage by Congress. While the bill will not result in appreciably increasing the number of future Japanese emigrants to the US, its recognition of equality between Asiatics and non-Asiatics would eliminate a minor Japanese Communist propaganda weapon and create considerable good will for the US with the Japanese man-in-the-street.

State Department favors US-UK textile mission. Pursuing the UK views that a textile cartel agreement should be arranged before the UK approves "most-favored nation" treatment for Japan (see B/FE Weekly No. 38), the State Department has declared in favor of a US-UK mission to Japan with powers restricted to fact-finding. Restriction of the mission's powers is necessary in State Department opinion, because authority to fix prices, allocate markets or limit production would be inconsistent with the proposed charter for an International Trade Organization.

"C"

KOREA

Democratic Peoples' Republic delegation visits Moscow. Kim Il Sung, Premier of the northern Korean Democratic Peoples' Republic and other high cabinet officers, escorted by Col. General Shtikov, USSR Ambassador to the puppet state, left by air for Moscow on 22 February 1949. Northern Korea assumed full Soviet satellite status in mid-January, with an exchange of embassies.

"B"

Rice collection failure brings Rhee Cabinet shift. President Syngman

"C"

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KOREA (Cont.)

Rhee has ousted Cho Pong Am as Minister of Agriculture in an attempt to make Cho the scapegoat for the Government's failure to collect more than 50% of the rice quota. Replacement of Cho by Lee Chong Hyun, however, will not resolve the problem of the failing rice collection.

Cho's inefficient administration as well as his possibly deliberate efforts to sabotage rice collections are partially responsible for the Government's failure to meet the quota. The basic responsibility, however, rests in the weakness of the National Assembly's rice collection law. Even an efficient administrator could probably not have collected appreciably more rice under the existing regulations.

Cho is a former Communist, originally appointed because Rhee wished to give his administration an appearance of wide representation. Cho filled his Ministry with leftist followers. It is probable that Rhee used the excuse of rice quota failure to rid his Cabinet of a man who was neither a personal friend or supporter and whose political following is inadequate to exert significant pressure on the Government.

CHINA

Acting President LI's position improves. LI Tsung-jen appears to have won the first round in his contest with CHIANG Kai-shek for control of the National Government. His position has been considerably strengthened by Chinese Communist leaders MAO Tse-tung and CHOU En-lai's granting of an interview to the peace mission headed by W.W. YEN. According to members of the mission, the Communist leaders have agreed in principle to the reopening of certain lines of communication between Communist and Nationalist China. Meanwhile, a Communist broadcast indicated that peace negotiations will begin shortly. LI's exhaustive efforts to seek peace with the Communists have won him a growing popular support.

Within Nationalist ranks, LI showed political astuteness on his recent trip to Canton when he successfully maneuvered SUN Fo into returning to Nanking for the opening of the Legislative Yuan. SUN who has continually refused to bring the Cabinet back to Nanking, reportedly returned on Generalissimo CHIANG's orders indicating CHIANG's recognition of LI's increased influence. The return to Nanking may additionally indicate an attempt to check any efforts by the Legislative Yuan to oust SUN Fo as Premier.

LI has also been successful to some extent in winning certain key figures to his cause, notably former Defence Minister HO Ying-chin. However, LI has yet to gain the allegiance of the potentially powerful Kwangtung group, including CHANG Fa-kwei, HSUEH Yueh and WU Te-chen and

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may find his authority challenged in Canton by a competing group of Legislative Yuan members under the Yuan's Vice President LIU Chien-chun, if a quorum can be mustered. LI's most serious weakness, however, continues to be his lack of financial resources. LI's Peiping peace mission reportedly has emphasized to the Communists the precarious currency position of the Nationalists as one strong argument for an early peace. CHIANG and his cohorts still control the bulk of the nation's monetary reserves and banking facilities, and for this reason LI may prefer to continue to seek a compromise with CHIANG's forces rather than break with them completely.

Communists emphasize industrial production. North Shensi radio last week reported popular acclaim for the Chinese Communist Party's economic achievements. With the expansion of their territory to include more and more cities, the Communists have become increasingly aware of the economic importance of industrial and commercial groups. During the past year, Communist pronouncements have emphasized industrial production in addition to the traditional agricultural program. On 21 February, the Communist radio announced that "The Northeast State-owned Enterprises Provisional Wartime Labor Insurance Act" was passed in January by the Manchurian Democratic Government, and will go into effect on 1 April. Under this Act, state-owned enterprises are to provide their workers with medical and funeral benefits as well as old age and disability pensions. "Other liberated areas are closely studying this first labor insurance act for experience in applying it to their own areas," the broadcast continued. "A"

Pragmatic Communist policy-makers have compromised with theory and modified their policies in order to gain the support of key economic groups. In a speech on 25 December 1947, MAO Tse-tung said: "Owing to the backwardness of China's economy, it will still be necessary to permit the existence of the capitalist economy for a long time." According to a 3 August 1948 New China News Agency editorial, "...all law-abiding industrialists and commercial businessmen...should be protected from infringement.... Industrial production should be regarded as of equal importance to or more important than agricultural production." Now that the Communists are faced with the problem of maintaining production in such major industrial centers as Mukden and Tientsin, they will probably modify their policies even farther, perhaps to the extent of soliciting the cooperation of foreigners. The Communist Tax Bureau in Mukden, eager for the reopening of the BAT cigarette factory--a source of tax revenue--has reportedly invited BAT officials to return to Mukden and has offered financial assistance if needed.

Nationalists announce another new financial program. The financial program for Nationalist China announced 24 February, will attempt to maintain Nationalist purchasing power for at least a few more months. The Ministry of Finance and the Central Bank, in recognition of the loss of tax receipts from provinces, feel that in the absence of substantial "B"

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US aid the situation is hopeless in the long run, but that a few months grace may be gained by selling gold reserves and issuing subsidiary silver coins. The Central Bank plans to increase the total gold yuan issue by 30% a month--optimistic in view of the 200% increase reported for January. Other features of the program are chiefly relaxation of import-export controls and approval of free circulation of gold and silver. The United States is being strongly pressed for a silver loan, which in a few months' time probably would be the only asset available to the Nationalists.

Largest Nationalist combat ship defects. During the early morning hours of 25 February, the light cruiser Chungking--largest combat vessel in the Chinese Navy and formerly HMS Aurora--steamed out of its Shanghai anchorage with destination unknown. The Chungking departed with a full load of fuel, presumably a full load of ammunition and complete crew complement of 650-750 officers and men. On 28 February, the Chinese Air Force reported that the Chungking had been located in the Communist port of Chefoo on the Shantung peninsula. The defection of the Chungking marks the third such action in a period of less than three weeks: On 13 February the destroyer-escort Huang An left her berth at Tsingtao in the same manner as the Chungking; the ice-breaker Chang Pai, reported lost at sea on 7 January, was spotted intact by the CAF in Chefoo harbor about the middle of February.

"B"

#### INDOCHINA

French Assembly to consider Government policy. Despite the French Government's desire to avoid Assembly discussion of a formal Franco-Vietnamese treaty before Bao Dai's return to Indochina, the Indochinese question has been placed on the National Assembly agenda for 11 March, when a full debate may be expected. According to an official of the French Overseas Ministry, a law will be introduced authorizing formation of a Cochinchina Territorial Assembly, which will be empowered to take action on unification with Tonkin and Annam. Favorable consideration in this body may be expected since an agreement, promising considerable autonomy to Cochinchina, within the Vietnam, has apparently already been reached in France.

"B"

Reportedly included in the Franco-Vietnamese Agreement are independence and unity for Vietnam within the French Union, diplomatic rights subject to the approval of the President of the French Union, a national army in exchange for strategic bases for France, and the linking of the piastre to the franc.

In Indochina, High Commissioner Pignon appears cautiously optimistic, and states that, although Bao Dai is returning to a difficult situation, he has a good chance to succeed. This may be based upon the fact that Bao Dai is reported to be considering negotiations for a truce with the resistance forces, a move which will be approved by the High Commissioner so long as

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INDOCHINA (continued)

his contacts are limited to the non-Communist nationalist leaders within the Ho Chi Minh group.

State Department reiterates stand on Bao Dai plan. The US Department of State has informed Ambassador Caffery in Paris that it is not prepared to give public support to any arrangement for Indochina unless the plan includes sufficient means to insure its success or until the Bao Dai regime itself achieves the support of an appreciable portion of the population. Decisive action on the unification of Cochinchina with Tonkin and Annam is considered essential before Bao Dai can rally to his cause the nationalists who are presently following Ho Chi Minh. It was emphasized that any reconsideration of US policy toward ECA aid for Indochina must await developments.

"B"

SIAM

Unsuccessful coup d'etat may bring Government changes. Although the armed clash in Bangkok last weekend—the bloodiest since 1933—was officially termed the result of an Army-Navy "misunderstanding", there is little doubt that ex-premier Pridi attempted a coup d'etat with Navy assistance. Marine units, in cooperation with Pridi's Free Thai followers, seized the government radio station and the Royal Palace on Saturday night and then deployed through other sections of Bangkok. Shortly thereafter the radio broadcast a proclamation, in the King's name, dismissing the Phibul Government and appointing pro-Pridi men to the Cabinet. The proclamation also ordered re-establishment of the original 1933 constitution which had stripped the monarchy of its absolute powers.

"A"

Despite deployment of Marine forces, loyal government units retained control of the center of Bangkok. By Sunday afternoon, Phibul's forces had regained control of the situation, recaptured the radio station and announced that an agreement had been concluded to establish a joint Army-Navy committee "to investigate the incident."

The coup d'etat misfired because certain Army elements and the entire Navy failed to support the Marines effectively and the Phibul Government apparently was aware of the plot. It is believed that the Navy C-in-C, although directing the armed insurrection at first, later lost heart and withdrew Navy support from the Marine units.

Although the events over the weekend represent an unsuccessful effort to oust the Phibul regime, it is possible that some sort of a political agreement may now have been reached. Phibul was known to have had several meetings lately with Direk Jaiyanaman, a leader of the Pridi group. It is



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SIAM (continued)

certainly possible that the insurrection was basically an effort to rid the Government of the objectionable but powerful Army figures who control the Phibul regime. The Navy is believed to want the dismissal of these leaders as well as changes in the Cabinet and non-interference from the Army. If the Navy, which is loyal to Pridi, had succeeded in its objectives, it is probable that supporters of Pridi would be included in a reorganized government. Further, should the undesirable members of the Phibul regime be dismissed, the high degree of dissatisfaction within the armed forces would be greatly alleviated and a more stable situation in Siam would ensue.

INDONESIA

Republicans reject latest Dutch plan. As expected, Indonesian Republican Leaders have announced their rejection of the Dutch proposal to settle the Indonesian stalemate by means of a roundtable conference at The Hague. It is believed that the rejection stemmed primarily from the Dutch refusal to restore the Republicans to a position of recognized governmental authority at their former capital, Jogjakarta. The UN Commission for Indonesia can be expected to exert pressure to effect a compromise on this point. "B"

PHILIPPINES

Liberal Party regroups under Quirino. The Liberal Party, currently split over a rump Senate vote ousting party leader Jose Avelino as Senate President, shows signs of rallying under President Quirino. Avelino and a few of his followers have been temporarily purged from the party and, to date, he has been unsuccessful in his attempts to strike back at his political enemies. "B"

In the Senate, a special committee is daily conducting hearings on charges of graft and corruption lodged against Avelino. Two of his supporters, Senators Lopez and Magalona, have met with President Quirino and, according to reports, may be won over to the Quirino group. The Senate Electoral Tribunal is currently examining protests made 13 months ago by the Minority Party against the election of three other Avelino supporters. It is possible that the graft charges will cause the defection of a considerable number of other followers to the Quirino camp, thus further undermining Avelino's political position.

PACIFIC OCEAN AREAS

Spanish claim islands. Although the UN Security Council on 2 April 1947 granted the US a strategic trusteeship over the former Japanese Mandated Pacific islands, it now appears that complete US control over these "B"

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PACIFIC OCEAN AREAS (continued)

numerous islands is not universally recognized. In an article published in an obscure Spanish periodical last fall, one Emilio Pastor y Santos, unofficially associated with the Philippine Legation at Madrid, wrote he had "discovered" that under the Treaty of 1 July 1899, by which Spain ceded her possessions in Micronesia to Germany, certain rights were reserved and certain islands omitted from the cession. The article escaped general notice until it was condensed and reprinted in a Madrid daily some months later.

In January it was announced that the Spanish Foreign Minister had discussed the subject in a cabinet meeting. A subsequent press release of the Foreign Office asserted, "These rights subsist fully and since these territories are under trusteeship at the present moment, it is fitting to recall that they are Spanish possessions, without prejudicing the right to bring up the subject again as the national interest may demand, when this question is being decided internationally."

Sr. Pastor, in his original article, set forth the strategic value to Spain of refueling stations among the Micronesian islands, which he described "as the keys to the sea lanes of half the world." He also suggested that the acquisition of such naval stations would promote closer Spanish relations with the Philippines and foresaw the island installation of a radio transmitter to broadcast Spanish programs in the Far East. He may have been slightly more realistic when he mentioned Spanish claims as assets in future diplomatic bargaining. Since Spain, however, did not press these claims during the thirty years of Japanese occupation, it is doubtful that a legal case exists.

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